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CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE

DAILY DIGEST

Date: JUN 29 1951

- NOTE:
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 3. Marginal letter indications are defined as follows:
 - "A" - items indicating Soviet-Communist intentions or capabilities
 - "B" - important regional developments not necessarily related to Soviet/Communist intentions or capabilities
 - "C" - other information indicating trends and potential developments

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SECTION 1 (SOVIET)

"A" USSR. Comment on Gromyko's Clarification of the Malik Proposal. Gromyko's remarks indicate a Soviet desire to disassociate the USSR from the actual negotiations or the terms put forward for a Korean settlement. Participation of the North Korean Command will enable the USSR to advance its terms concerning Korea proper, which principally would involve the restoration of the division at the 38th Parallel. The question of assurances against the resumption of hostilities, which Gromyko stated would be the subject of discussion between commands in formulating terms of the military armistice, probably cannot be clarified until field discussions begin. Inclusion of a "representative of the Chinese volunteer units" would enable the Chinese People's Republic to put forward their previously unacceptable demands concerning Formosa and the UN. But unless the USSR wishes to use these demands as a pretext for breaking off the post-armistice negotiations after a respite for Communist forces, it is conceivable that the only firm demands advanced by the Chinese Communists will concern guarantees against a renewal of "aggression" by the US and allied forces that would endanger the security of the Manchurian border.

"A" Yugoslav UN Delegate Views Malik's Proposal as Indication of Soviet Readiness for Korean Settlements. In a 27 June conversation with the US delegation, Yugoslav UN Delegate Bebler expressed the view that Soviet readiness for settlement in Korea was indicated by the fact that the Malik proposal had been made at all, and by subsequent Soviet press treatment accorded the proposal. Bebler warned, however, that any Korean settlement would only be a move to relieve the Kremlin from an awkward position in Korea and to free the USSR for further operations against the West in an area such as Iran or Indochina. Bebler did not think Yugoslavia had been chosen as the next target of Soviet aggression. (S NY 1730, 27 June 51). COMMENT: As reported by the authoritative Yugoslav newspaper Borba, the Foreign Ministry suggests the possibility that Malik's offer is a "peace" propaganda maneuver intended to justify further Soviet participation in the Korean conflict. The Foreign Ministry considers, however, that if the proposal is based on a sincere desire to stop the Korean war, it affords proof of the failure of the entire policy supported and organized by the Soviet Government during the past year.

"A" EASTERN EUROPE. CZECHOSLOVAKIA. US Jet Planes to be Released. In a 28 June note to the United States the Czechoslovak Government stated that the investigation of the violation of Czechoslovak territory by two US military jet planes had been completed and that on the basis of the findings the Czechoslovak Government has decided to release the planes and pilots. The planes and the US pilot involved will be returned to the US Zone of Germany, while the Norwegian pilot will, at his own request, be sent back to Norway. The note added that the Czechoslovak authorities will present the Embassy with a bill for hangaring and transportation of the planes and

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other expenses. As a result of the above action, US Embassy in Prague has recommended that Czechoslovak overflights of Germany be permitted on an ad hoc basis until the pilots have actually been returned, at which time a decision on the formal renewal of the overflight permit should be made. (S Praha 865 and 866, 28 June 51).

"C" FINLAND. Crop Forecast and Food Prospects Poor. The first official Finnish crop forecast for 1951 predicts the following yields for fall sown crops: wheat 80% of normal, rye 77%, oilseed 86%, and hay 66%. The growth of spring sown grains and rootcrops has been alarmingly retarded due to cold and drought, while 92% of the pastures are inferior. Moderate rainfall and warmth during mid-June has improved crop prospects, but cannot save the situation completely. Unofficial but authoritative sources estimate that future favorable weather might improve the spring grain and potato crops, but their maturing is unlikely before possible early frosts in August. US Legation Helsinki points out that as a result of the current crop situation (1) next winter's grain import needs will evidently be heavier than usual, (2) new crop fodder prospects are poor, (3) scant pasturage has lowered milk production below that of last year, and (4) butter production has been reduced, with visible stocks adequate for four days. (P Helsinki 655, 27 June 51). COMMENT: Finland is approximately 90% self-sufficient in food requirements in a normal crop year.

"B" HUNGARY. Communists Reap Benefits of Grosz Trial. Immediately following the sentencing of Archbishop Grosz and his co-defendants to terms ranging from 8 years' imprisonment to the death penalty, the official Hungarian News Agency published a letter written by Bishop Endre Hamvas to Premier Istvan Dobi promising "to cooperate peacefully and loyally in the future and make good the errors that I committed against the government." During the Grosz trial several defendants had testified that Bishop Hamvas and other church leaders had known of the conspiracy. (C NYT, 29 June 51). COMMENT: Heretofore Bishop Hamvas, together with Archbishop Grosz, had been a strong opponent of the Communist regime. If, as the reported letter indicates, the government has been able to bring Bishop Hamvas to terms, it has succeeded in breaking the spirit of the Bench of Bishops (the governing body of the Hungarian Catholic Church). By removing Archbishop Grosz, the regime has also succeeded in destroying the unity and strength of the Bench of Bishops which will now be under the leadership of the relatively pliant Bishop Gyula Czapik.

"C" POLAND. Favorable Crop Prospects Indicated. Based upon staff observations during trips throughout the Polish countryside, US Embassy Warsaw reports that prospects for crops seem promising. Livestock in pastures appeared to be in good condition and more numerous than a year ago. There was also an apparent increase in the amount of agricultural machinery being used in the fields. (R Warsaw D647, 28 May 51). COMMENT: While these observations were made in May, early June reports have also indicated that the weather had continued satisfactory for agriculture.

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"A" YUGOSLAVIA. Yugoslav Government Believed Incapable of Overthrowing Hoxha Government. In an informal meeting with a US Embassy official in the Kosmet region, Rejep Beca, the president of the Yugoslav-sponsored Albanian Emigre Society expressed his belief that Yugoslavia is too weak and poor to provide revolutionary assistance for the overthrow of the Hoxha regime. Beca claimed that Yugoslav activity in Albania is currently confined to assisting about 60 refugees monthly to cross the frontier. Beca expressed the opinion that externally-inspired insurgent and propaganda efforts in Albania have not secured a following, since the Albanian people do not want to trade one foreign domination for another. He commented that the Albanian people need to know that the outside world is aware of Albania's plight, a need that could be met by fuller VOA discussion of the Albanian situation. The Embassy comments that available evidence does not suggest that the Albanian emigres in Yugoslavia are presently being used to further Yugoslav political influence in Albania. (S Belgrade 2000, 27 June 51). COMMENT: It has been reported previously that the Yugoslav-sponsored Albanian Emigre Society was active politically among Albanian refugees in Yugoslavia, and that militarily-fit members were being trained for action in Albania.

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SECTION 2 (EASTERN)

"A" INDIA. US Officials Refused Information on Transshipments at Port of Bombay. The Assistant Collector of Customs, Bombay, has stated to a US consular officer that senior officials of the customs office maintain statistics on in-transit shipments by sea which pass through the port of Bombay. (In-transit shipments are defined as those sent from one foreign country to another on a through bill of lading, but transshipped in Bombay port from one vessel to another.) The statistics are kept for the information of the customs office and of the Central Board of Revenue. According to Indian Government directives, they cannot be divulged by the customs office to US representatives without a written order from higher authorities in New Delhi. Preliminary attempts by the US Consulate to obtain similar information from the Bombay Port Trust have also been unsuccessful. (C Bombay Desp. 1082, 25 May 51). COMMENT: Since such transshipments take place very frequently in a port as large as Bombay, [redacted] of contraband goods is made difficult by the non-cooperation of Indian officials. It will also be difficult to determine the extent to which Indian and foreign shippers use the port of Bombay in forwarding strategic materials to Communist China.

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[redacted] reported on 22 June that the French military position in Tonkin had deteriorated badly during the preceding month. It estimated that Franco-Vietnamese forces were "fully extended" and will be "hard pressed" should Viet Minh concentrations around the defense perimeter launch coordinated attacks. (S Singapore 2111, 28 June 51). COMMENT: The French reportedly feel secure in Tonkin against any Viet Minh attacks unless such are reinforced by large numbers of Chinese Communist troops. US observers have not indicated any significant weakening of French forces as a result of Viet Minh operations over the last few weeks. French tactics of rapidly transferring troops from point to point to counter successive enemy assaults have so far been successful. Should the Viet Minh coordinate several heavy offensives, however, the French might be seriously threatened.

"B" CHINA. Communists Increase Cotton Imports. Two Panamanian vessels arrived in Whampoa (Canton) recently from Calcutta with cotton cargoes, and two other merchant vessels are booked to load cotton at Karachi for Canton. (S State Hong Kong 3942, 26 June 51 and C State Hong Kong 3864, 21 June 51). COMMENT: The Chinese Communists are importing raw cotton in an attempt to alleviate the shortage which has temporarily closed down China's textile industry. At the same time, Peiping propaganda alleges success in the current program to increase collections from private cotton holders in China. Owing, however, to a tight supply both inside China and in the foreign markets available to Communist buyers, it is doubtful if China's textile mills will be able to resume full production before October when the new crop is harvested.

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- "C" KOREA. Indications of Lowering Communist Military Morale. A series of reports from [] may point to a lowering of Communist military morale in Korea. Traffic controls immediately south of Wonsan are reported to be strictly enforced by North Korean police because large numbers of North Korean Army deserters and draft evaders are in the area.
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- 25X1C [] claims that purges have been instituted among "the armed forces in Korea," presumably a reference to Chinese troops. Fifty medium-grade cadres were found to be opposed to the war or "lacking in military enthusiasm" and were sent to the rear for trial. Another report quotes the Commander of the North Korean 1st Corps as stating that 2,000 of his men were captured or deserted in the "spring offensive."
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- COMMENT: A further cause of lowered morale is revealed in recent POW interrogations and Radio Pyongyang broadcasts which have indicated that friction exists between Chinese Communist troops and the North Koreans.

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SECTION 3 (WESTERN)

"C" GERMANY. Interim Interzonal Trade Agreement May Release Berlin Exports. US representatives in Berlin believe that the Soviet authorities in that city may resume approving West Berlin export permits if a new interzonal trade agreement, or an interim arrangement, is concluded by the East and West Germans without delay, and is confirmed by Allied authorities. The Berlin trade representative of the Bonn Government reports that the East Germans appear favorably disposed toward a two-months' extension of the present interim agreement, which will expire on 2 July. Meanwhile, the Soviets failed to pass any export permits on last Thursday, and the backlog is now over 7,000. Our officials comment that the situation indicates the Soviet determination to exert strong pressure for the rapid conclusion of a trade agreement. (S Berlin 1565, 28 June 51) COMMENT: Heinrich Rau, chairman of the east German state planning commission, told an East Berlin newspaper on 28 June that if all interzonal trade agreements, including interim arrangements, are allowed to die out on 2 July, then complementary agreements will also become invalid, resulting in the stoppage of the delivery of electric current and coal to West Berlin.

"B" ITALY-IRAN. Anglo-Iranian Oil Company Approves Sending of Italian Oil Experts to Iran. The Italian Foreign Office has informed the US Embassy in Rome that the local representative of the Anglo-Iranian Oil Company (AIOC) has contacted officials of the Italian Petroleum Organization (AGIP) and approved the sending of two Italian petroleum technicians to Tehran. These Italian experts, one an administrative official and the other one of Italy's best technical experts, were sent in response to a request by the Iranian Prime Minister. The Italians, however, have refused to furnish Iran with the number of oil technicians it needs. The Iranian Prime Minister has also expressed an interest in the Italian nationalized oil industry and its relations with foreign private companies. US Embassy Rome comments that AGIP relationships with foreign private companies are satisfactory, that its monopoly for exploration and development is limited to certain areas of the country, and that it participates jointly with foreign companies in operating refineries. (S Rome 5965, 27 June 51; S Tehran 3378, 21 June 51) COMMENT: Italian assistance to Iran will probably be very limited because Italy does not wish to antagonize the UK. In addition, Italy does not have surplus oil technicians. The Iranian Prime Minister has been casting about for a model upon which to peg Iranian nationalization. However, the Italian arrangement is not what he is seeking.

"C" ITALY. Bank of Italy Analysis of Italian Economy. The Bank of Italy emphasizes the favorable trends of the Italian economy, but warns that price increases will affect Italy more adversely than other European countries. It believes that price increases since the Korean war may force Italy to pay 30% more for imports of raw materials during 1951, but

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that this increase should be partially offset by an anticipated 10% boost in Italy's export price level. According to the bank, industrial production in 1950 rose to a level 19% above that of 1938. There was an increase in value of imports of 39% and in exports of 45%. Only 19% of total imports were financed by ECA as compared to 28% for the previous year. (U Journal of Commerce, 18 June 51) COMMENT: Further economic gains will probably be made in Italy, depending upon its ability to avoid inflation and to procure raw materials in support of increased requirements for industrial and consumer production. Unemployment will not be reduced very rapidly because greater activity will only mean that the existing surplus workers in industry will be better utilized. Because the population is about 7.5% greater than that of 1938, per capita food consumption is not yet up to the prewar level, while agricultural production has almost reached that level.

"C" SPAIN. Rumors of Change in Government's Structure Persist. It is currently rumored in Madrid that General Francisco Franco has under advisement a plan whereby he would delegate the functions of Prime Minister while retaining the position of Chief of State. Under this plan, allegedly presented by former Minister of Industry and Commerce Demetrio Carceller Segura, Franco presumably expects to become personally immune from further popular criticism of government inefficiency and corruption. (S Madrid 1214, 26 June 51) COMMENT: Despite the categorical statement by a high Foreign Ministry official on 26 June that "any rumors of imminent changes in the Spanish cabinet were untrue", the possibility that Franco has considered such a plan should not be discounted. Speculation on the subject of Franco's successor in the premiership has centered on (1) present Minister of Industry and Commerce Suances, who is clearly unsuitable since he is generally blamed for Spain's current economic difficulties, (2) Jose Larraz, former Finance Minister, who reportedly refused Franco's offer unless his demands for political, social and economic reforms were met, and (3) Demetrio Carceller, president of the Spanish Petroleum Company (CEPSA), who himself suggested the plan, and is a member of the central directing committee of the Falange.

"B" SCANDINAVIA. Foreign Ministers Meeting to Consider Korean Unit. The Danish Foreign Minister informally told the US Ambassador that the Scandinavian Foreign Ministers would meet on 2 July in Copenhagen to discuss a possible joint unit for Korea and indicated his belief that both Norway and Sweden would join Denmark in the venture. Both the Foreign Minister and the former Prime Minister, who is chairman of the Social Democratic Party, are certain that the Danish Government will give a favorable answer to the UN request. They admit, however, that there exists considerable popular opposition to and a lack of understanding for such action in Denmark despite efforts to educate the public on the necessity of supporting the UN in Korea. (S Copenhagen 1129, 28 June 51) COMMENT: It is unlikely that the Swedish Government will take the initiative in despatching volunteers to Korea.

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The Danes and Norwegians, however, may persuade the Swedes to give tacit approval for volunteers to join a Scandinavian unit.

"C" UNITED KINGDOM. Preliminary Reaction to Announcement by Left-Wing Labor Party Group of Intra-Party Campaign. US Embassy London, in commenting on the immediate reaction to the announcement of Bevan's small left-wing Labor Party group's campaign to instigate a more Socialist program for the Party (see OCI Daily Digest, 19 June 51), states that party officials privately report satisfaction that the new dissident policy statement titled "One Way Only" will be published early enough to give party leaders ample time to refute it before the party's annual conference in October. In commenting on rank-and-file support for the Bevan position, the Embassy reports that four fairly important trade unions, three of which are Communist influenced, in their annual conferences last week were mainly concerned with the high cost of living rather than with foreign policy discussions or the Labor Party split. On the other hand, Labor Party Headquarters has expressed its concern over the receipt of a hundred-odd resolutions from constituency and ward labor parties supporting Bevan; these, too, mainly protested domestic policies. (C London 6816, 26 June 51) COMMENT: Labor Party officials may be too sanguine if they regard the absence of foreign policy resolutions at trade union conferences throughout the summer as an indication of continuing labor rank-and-file support of the Party leadership. Trade union leaders are warning the Government of increasing labor dissatisfaction with the Government over the wages and prices issue. If this criticism is not met, there may arise broader support of the Bevan position, including his foreign policy.

"C" Delivery of Polish Tankers Reviewed and Delayed. Foreign Secretary Morrison expressed interest in the idea that the Iranian oil crisis might justify delaying the delivery of the Polish Government-owned tankers being built in British ports, in a conversation with the US Ambassador in London, and stated that he would do what he could. Meanwhile, the Foreign Office reports that the trials of the first of the two tankers, delivery of which had been expected by mid-July, have been postponed by two weeks, and are now scheduled to begin 9 July. US Embassy London believes that if non-delivery of the tankers would insure the granting of a Kem amendment exception, assurances to that effect would have an important influence on the British decision. (S London 6883, 28 June 51) COMMENT: Review of the issue in light of the Iranian crisis and delay in the trials follow vigorous US representations along those lines. The stated UK position remains that the vessels will be delivered due to legal principles and for fear of retaliation (see OCI Daily Digest, 28 June 51).

"B" FRENCH WEST AFRICA. French Communist Claims Control Over Labor. All labor in the tropical areas of French West Africa is controlled by the French Communist Party (PCF), according to Maurice Carroue, member of the party's Central Committee. Carroue told a meeting of the Federation Syndical de

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Guatemala on 12 May that, because he controlled labor in this area, he could ensure that the United Fruit Company would have plenty of trouble if it withdrew from Central America and commenced operations in Africa.

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COMMENT:

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Since the organization in 1946 of the Communist-oriented native party (RDA) in French West Africa, the French Communist Party (PCF) has sought to use this medium to control West African labor. The native party, however, made so little progress that in 1949 and 1950 PCF organizers were sent to the area. While the PCF undoubtedly possesses a strong influence over native labor and could stir up trouble, sufficient police power is available to quell any disturbance.

"C"

UNION OF SOUTH AFRICA. Rail Difficulties Slow Manganese and Chrome Export. A reduction by 50 per cent in the allocation of freightcars for the transportation of manganese and chrome ores to the ports will reduce exports of these items, already behind schedule, by about 25,000 and 12,000 tons respectively below normal levels during July. During the first five months of 1951 manganese exports to the US totaled only 164,073, long tons or approximately 17% less than for the same period in 1950. Rail officials have been impelled to allocate more cars for domestic shipment of coal in order to alleviate the fuel shortage which is currently seriously affecting thermodynamic power plants and industrial establishments throughout the Union. They claim, however, that the deficit in chrome and manganese shipments for June and July will be overcome in subsequent months. It is claimed that an actual shortage of cars is no longer a serious factor and the present difficulties are attributed to a lack of motive power, shop repair facilities, and trained personnel. (C Pretoria 274, 26 June 51; R Capetown Joint Weeka No. 50, 15 June 51) COMMENT: The lack of adequate railroad facilities in the whole southern African region constitutes a chronic problem, since the rail system is unable to meet the requirements of the expanding economy of the Union and Southern Rhodesia. A temporary improvement with respect to car allocation can be expected when the current crisis has been overcome, but it is questionable whether the backlog of ore exports can be handled. Moreover, until the transportation system is substantially expanded, and such plans are still in their infancy, the flow of strategic ores will continue to suffer from periodic dislocation and reduction.

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ARGENTINA. Foreign Minister and Ambassador to US Exchange Posts. Minister of the Interior Borlenghi has announced that Foreign Minister Hipolito Paz and Ambassador to the US, Remorino, will exchange posts. Borlenghi explained that this does not imply a change in the foreign policy of Argentina. The change is being made in order to enable the government to avail itself of the services of both men, with special consideration to Ambassador Remorino, who is not well. (R FBIS ticker, 28 June 51) COMMENT: The change should not adversely affect US interests in that both men are reportedly more pro-US than the rest of the cabinet. Remorino's reported ill health has been confirmed by other sources.

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"B" CUBA. Communist Newspaper "Hoy" Again Seized. The Cuban Government has once again ordered the confiscation of the Communist daily Hoy, basing its action on the charge that the newspaper constitutes a threat to the security of the republic. The closure, ordered by the Department of the Interior on 27 June, followed a cabinet decision. (R Habana 691, 28 June 51) COMMENT: Hoy, organ of Cuba's Communist Partido Socialista Popular, was returned to the party on 18 June 1951 by a court order which ended a seizure made on 24 August 1950. (See OCI Daily Digest, 22 June 51.) Its reclosure now has taken place in deference to numerous groups and organizations which have not only opposed the return of Hoy but have also demanded the suspension of its successor, the small La Ultima Hora. An effort is being made by the non-Communist Cuban Confederation of Labor (CTC), through a "rescue committee", to have the newspaper plant turned over to it, since the plant was originally bought by the sale of bonds among workers when the federation was under Communist control.

"C" MEXICO. Attitude on Contract Labor. Manuel Tello, Under-Secretary of Foreign Affairs, has stated that Mexico will not conclude another basic international agreement with the US for the contracting of laborers, if the US Congress insists that US farmers be authorized to use the services of Mexicans who cross the border illegally. Tello added that to permit this would be equivalent to encouraging Mexicans to violate the law and would expose them to "an anarchic situation in the matter of salaries, protection of a social nature, and so forth". (R FBIS, 29 June 51) COMMENT: The present agreement with Mexico for the contracting of laborers expires on 15 July. Currently, the US Congress is considering two possible bills: a Senate bill which would provide penalties for employers who hire persons whom they know or suspect may be "wetbacks" (illegal immigrants), and a House bill which would permit contracting of "wetbacks" on the same basis as those contracted in Mexico.

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OFFICE OF CURRENT INTELLIGENCE
DAILY DIGEST OF SIGNIFICANT S/S CABLES

29 June 1951

SECTION 1 (SOVIET)

- "A" USSR. Ambassador Kirk Comments on Gromyko Interview. The Ambassador in Moscow considers that Gromyko's specific on-the-spot answers to important questions indicate that the Kremlin clearly supports the Malik proposal. Kirk feels that the Chinese People's Republic (CPR) is also behind the move. Gromyko's insistence that cease-fire negotiations remain separate from political and territorial questions implies that such questions will be negotiated later in connection with the Communist terms for settlement. There is no evidence that these terms will not initially include CPR membership in the UN, control of Formosa, Chinese and Korean participation in the Japanese peace treaty as well as evacuation of all foreign troops from Korea. The Embassy is inclined to suspect that the Chinese Communists are unwilling to continue the costly campaign and that urgent requirements of the Chinese over-all program necessitate abandoning the venture, at least for the present. The Embassy speculates that the importance of China to the USSR constrains the Kremlin to react with greater flexibility than is customary with the Eastern European Satellites. Considerations of face make the CPR prefer that the USSR initiate the advances. In answer to British proposals for further soundings of the CPR, North Korea and possibly the Soviet Government, Kirk emphasizes that Gromyko carefully sought to avoid governmental discussions in favor of direct negotiations between military commanders. The Ambassador considers that the opening move should be made by Ridgway and the South Korean commander. (S/S, S, MA Moscow 2186, 28 Jun 51; 2193, 29 Jun 51). COMMENT: There is no evidence that the Peiping regime is anxious to sue for peace at this time. It is possible that the USSR's desire to avoid direct involvement in the war or increased material support for the Communist forces is the primary motivation underlying the proposals.
- "B" YUGOSLAVIA. US Discourages Yugoslav Political Action in Albania. The State Department has advised Ambassador Allen that the US is interested in informing the Yugoslav Government without delay that Yugoslav political machinations in Albania would run counter to US basic interests in the Balkan area. The Department agrees with Allen that assistance to Yugoslavia on the refugee problem would be useful in opening sources of information on satellite refugees in Yugoslavia. However, the Department feels that, whereas aid to the refugees must be considered as a long-term problem, Yugoslav political intentions in

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Albania require immediate clarification. (TS, SS Outgoing to Belgrade 1453, 26 Jun 51). COMMENT: The Department had previously instructed Ambassador Allen to emphasize to the Yugoslav Government that the establishment of the Albanian refugee committee could lead to a conflict of interest between Yugoslavia and the US. (O/CI Daily Digest, 14 Jun 51).

SECTION 2 (EASTERN)

"B" UNITED KINGDOM/IRAN. New Approach to be Made in Oil Dispute. The US Department of State is prepared to suggest a "moratorium" to Iran, and the adoption of interim arrangements for 60 days between Iran and British interests which would, without prejudice to the issues involved, permit operations and shipments to continue until something of a more permanent nature can be worked out. This proposal was submitted to UK Foreign Minister Morrison for comment, who has indicated that the US proposal appears both helpful and constructive, and has expressed the UK's willingness that such an approach be made. The UK is ready to accept the US proposals if it is made clear to the Iranians that operation of the oil industry shall be under unlimited AIOC management, and that interim financial arrangements shall be along the lines already prepared by the AIOC. (S, S/S to London 6184, 27 Jun 51; S, S/S London 6885, 28 Jun 51). COMMENT: Although the Iranian Prime Minister's recent letter to the US President may be an indication that Iran is becoming fearful of the outcome of the oil debacle, the letter was not conciliatory in tone. While the new proposals offer a ray of hope, it is unlikely that they would be acceptable to the Iranians, unless they are willing to make a major change in their oil nationalization policy. In view of British experience with Iranian intransigence, the UK probably does not attach much hope to this current effort to break the impasse.

"C" ETHIOPIA. Foreign Minister Worried by Press Reports on Approaching Talks With Italy. The Ethiopian Foreign Minister is greatly concerned about the press reports that Ethiopia has asked the US and the UK to inform Italy of Ethiopian desire to resume diplomatic relations. According to the Foreign Minister this information is not true because the initiative for Italo-Ethiopian discussions came originally from Italy. His chief worry is that such tendentious reports might wreck all his work in convincing the Emperor and other Ethiopian officials that the resumption of Italo-Ethiopian relations should be explored. Ambassador Childs has suggested that in view of the objectionable character of the press reports the Italian and Ethiopian Governments should agree immediately on some public announcement on the subject. (C, S/S Addis Ababa 375, 28 Jun 51). COMMENT: For more than a year the US and the UK have been attempting to get Ethiopia and Italy to resume diplomatic relations, especially because of the necessity for cooperation between the two over Eritrea, a former Italian colony with a large Italian population which will form a federation with Ethiopia after 15 September 1952. Until recently the Ethiopians, with their memories of

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Mussolini, have refused to have anything to do with the Italians. However, they had replied favorably to the Italian request for discussions and were prepared to receive the Italian Under Secretary for Foreign Affairs some time after 15 July. No Ethiopian politician can afford to seem eager to resume diplomatic relations with Italy, but it is likely that the damage done by the press reports can be repaired so that the talks can be held.

"B" INDIA. Government is Gravely Concerned Over Possible Loss of Iranian Oil. Secretary Dutt of the Indian Ministry of External Affairs has stated that his Government is gravely concerned over events in Iran, which not only add to the threat of world war but which also might entail the loss to India's economy of vital Iranian oil. On 23 June, according to Dutt, Prime Minister Nehru sent a message to the Prime Minister of Iran, expressing his hope that the Iranian Government would observe moderation in the oil dispute and attempt to reach an amicable settlement. (S, S/S New Delhi 3802, 27 Jun 51). COMMENT: Prime Minister Nehru and the Indian press, motivated by feelings of Asiatic nationalism and apparently unaware of possible economic consequences to India, have previously been outspoken in their support of Iranian actions to nationalize the oil industry. Now that Iranian oil supplies seem likely to be cut off, however, they have belatedly remembered that 95% of the petroleum products annually consumed in India are imported and that Iran has provided about two thirds of these imports. The Indian tone has therefore moderated accordingly. If the Iranian situation deteriorates further, India may call upon US oil companies for assistance, a development which would raise problems of dollar credits and possible US financial aid.

"A" INDONESIA. President Sukarno Expresses Anxiety over Chinese Communist Activity During a visit by US Ambassador Cochran to President Sukarno, the latter emphasized the harm being done Indonesia by the Chinese. He pointed to the political penetration of Communist China with the accompanying spread of harmful propaganda. On the other hand, he complained of the recent transfer of capital by Nationalist China from Hong Kong and Formosa to Indonesia and subsequent purchase of real estate and business enterprises there. Sukarno said that it is impossible to assimilate Chinese in Indonesia and that the situation has developed to a point where Indonesians cannot trust any Chinese. He also spoke of the success Communists have had with youths in various countries and asked whether the US could help Indonesia in combatting Communist influence among Indonesian youth. (S, S/S Jakarta 1840, 28 Jun 51). COMMENT: The tendency among Indonesian officials has been to depreciate the growing activities of Chinese Communists in Indonesia. The bold tactics employed by the Chinese Communist Embassy and the four Chinese Communist consulates in Indonesia to extend Communism in the country have probably contributed largely to Sukarno's awareness of the Communist threat.

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"B" Indonesia Will Embargo Rubber to China. The Indonesian Cabinet agreed on 27 June that rubber should be included unconditionally in the list of strategic Indonesian exports which, in accordance with the UN embargo, will be denied to Communist China. (S, S/S Djakarta 1837, 28 Jun 51). COMMENT: Indonesia abstained in the UN when the embargo was voted. Subsequently the government prepared a list of strategic materials to be prohibited to China; this list, however, excluded rubber. Although Indonesia historically has not shipped rubber to Soviet Orbit countries, reports have been received recently of negotiations between Indonesia and Communist China toward an agreement whereby China would receive large quantities of rubber in exchange for rice. The reversal of Indonesia's position appears to have been achieved largely through the application of U.S. pressure - it was pointed out that, under the Kem Amendment, Indonesia might not qualify for US aid if omitted rubber from its strategic list. Prospects for strict implementation of the embargo by Indonesia, however, are limited since the government lacks the administrative machinery adequately to control the destination of privately owned rubber.

"B" JAPAN. Japanese Appear Reconciled to Revised Treaty. US officials, following a discussion with Prime Minister Yoshida and his assistants, report that the Japanese appear to be relieved that the revised US-UK peace treaty draft retains in such great degree the spirit and content of the original US draft. They report that Yoshida expressed concern about the formula for Chinese participation and that it is obvious that the Japanese are most reluctant to have the decision left to them. He also expressed the hope that Japan could maintain close economic relationships with the Bonin and Ryukyu Islands in the event a trusteeship is established over the Islands, and that Japan could extend national treatment to the inhabitants. The US officials believe, however, that the Japanese will be acquiescent on all essential points. (S, S/S Tokyo 2261, 28 Jun 51). COMMENT: The Japanese are undoubtedly greatly relieved over the absence of any restrictions on shipbuilding or other industrial capacity, which had been widely rumored as a possibility. Despite the fact that the Ryukyus and Bonins are an economic liability to Japan, desire for their eventual return to Japan has reached unexpected emotional heights.

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